



Washington State Auditor's Office

Independence • Respect • Integrity

Financial Statements and Federal Single Audit Report

Kennewick School District No. 17

Benton County

For the period September 1, 2013 through August 31, 2014

Published May 26, 2015

Report No. 1014326





Washington State Auditor

May 26, 2015

Superintendent and Board of Directors
Kennewick School District No. 17
Kennewick, Washington

Report on Financial Statements and Federal Single Audit

Please find attached our report on Kennewick School District No. 17's financial statements and compliance with federal laws and regulations.

We are issuing this report in order to provide information on the District's financial condition.

Sincerely,

JAN M. JUTTE, CPA, CGFM
ACTING STATE AUDITOR
OLYMPIA, WA

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FEDERAL SUMMARY

Kennewick School District No. 17 Benton County September 1, 2013 through August 31, 2014

The results of our audit of Kennewick School District No. 17 are summarized below in accordance with U.S. Office of Management and Budget Circular A-133.

Financial Statements

An unmodified opinion was issued on the financial statements.

Internal Control Over Financial Reporting:

- *Significant Deficiencies:* We reported no deficiencies in the design or operation of internal control over financial reporting that we consider to be significant deficiencies.
- *Material Weaknesses:* We identified no deficiencies that we consider to be material weaknesses.

We noted no instances of noncompliance that were material to the financial statements of the District.

Federal Awards

Internal Control Over Major Programs:

- *Significant Deficiencies:* We reported no deficiencies in the design or operation of internal control over major federal programs that we consider to be significant deficiencies.
- *Material Weaknesses:* We identified no deficiencies that we consider to be material weaknesses.

We issued an unmodified opinion on the District's compliance with requirements applicable to its major federal program.

We reported no findings that are required to be disclosed under section 510(a) of OMB Circular A-133.

Identification of Major Programs:

The following was a major program during the period under audit:

<u>CFDA No.</u>	<u>Program Title</u>
84.010	Title I, Part A Cluster - Title I Grants to Local Educational Agencies

The dollar threshold used to distinguish between Type A and Type B programs, as prescribed by OMB Circular A-133, was \$400,320.

The District qualified as a low-risk auditee under OMB Circular A-133.

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND
OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

**Kennewick School District No. 17
Benton County
September 1, 2013 through August 31, 2014**

Superintendent and Board of Directors
Kennewick School District No. 17
Kennewick, Washington

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of Kennewick School District No. 17, Benton County, Washington, as of and for the year ended August 31, 2014, and the related notes to the financial statements, which collectively comprise the District's financial statements, and have issued our report thereon dated May 19, 2015. As discussed in Note 1 to the financial statements, during the year ended August 31, 2014, the District implemented Governmental Accounting Standards Board Statement No. 65, *Items Previously Reported as Assets and Liabilities*.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit of the financial statements, we considered the District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the District's financial statements will not be

prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether the District's financial statements are free from material misstatement, we performed tests of the District's compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

PURPOSE OF THIS REPORT

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose. However, this report is a matter of public record and its distribution is not limited. It

also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

A handwritten signature in black ink, reading "Jan M. Jutte". The signature is written in a cursive, flowing style with a long horizontal stroke extending to the right.

JAN M. JUTTE, CPA, CGFM
ACTING STATE AUDITOR
OLYMPIA, WA

May 19, 2015

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR
EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL
CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB
CIRCULAR A-133**

**Kennewick School District No. 17
Benton County
September 1, 2013 through August 31, 2014**

Superintendent and Board of Directors
Kennewick School District No. 17
Kennewick, Washington

**REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL
PROGRAM**

We have audited the compliance of Kennewick School District No. 17, Benton County, Washington, with the types of compliance requirements described in the U.S. *Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended August 31, 2014. The District's major federal programs are identified in the accompanying Federal Summary.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the District's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program

occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination on the District's compliance.

Opinion on Each Major Federal Program

In our opinion, the District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended August 31, 2014.

REPORT ON INTERNAL CONTROL OVER COMPLIANCE

Management of the District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program in order to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal

control that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

PURPOSE OF THIS REPORT

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose. However, this report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.



JAN M. JUTTE, CPA, CGFM
ACTING STATE AUDITOR
OLYMPIA, WA

May 19, 2015

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

Kennewick School District No. 17 Benton County September 1, 2013 through August 31, 2014

Superintendent and Board of Directors
Kennewick School District No. 17
Kennewick, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of Kennewick School District No. 17, Benton County, Washington, as of and for the year ended August 31, 2014, and the related notes to the financial statements, which collectively comprise the District's financial statements, as listed on page 15.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the financial reporting provisions of Washington State statutes and the *Accounting Manual for Public School Districts in the State of Washington* (Accounting Manual) described in Note 1. This includes determining that the basis of accounting is acceptable for the presentation of the financial statements in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's

judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the District's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant account estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Unmodified Opinion on Regulatory Basis of Accounting (Accounting Manual)

As described in Note 1, the District has prepared these financial statements to meet the financial reporting requirements of Washington State statutes using accounting practices prescribed by the Accounting Manual. Those accounting practices differ from accounting principles generally accepted in the United States of America (GAAP). The difference in these accounting practices is also described in Note 1.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Kennewick School District No. 17, as of August 31, 2014, and the changes in financial position thereof for the year then ended in accordance with the basis of accounting described in Note 1.

Unmodified Opinions on the Governmental and Fiduciary Funds Based on U.S. GAAP

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the General, ASB, Debt Service, Capital Project, Transportation Vehicle and Fiduciary funds as of August 31, 2014, and the changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Matters of Emphasis

As discussed in Note 1 to the financial statements, the District adopted new accounting guidance, Governmental Accounting Standards Board Statement No. 65, *Items Previously Reported as Assets and Liabilities*. Our opinion is not modified with respect to this matter.

Other Matters

Supplementary and Other Information

Our audit was performed for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. The accompanying Schedules of Long-Term Liabilities are also presented for purposes of additional analysis, as required by the prescribed Accounting Manual. These schedules are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements, and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated May 19, 2015 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.



JAN M. JUTTE, CPA, CGFM
ACTING STATE AUDITOR
OLYMPIA, WA

May 19, 2015

FINANCIAL SECTION

Kennewick School District No. 17
Benton County
September 1, 2013 through August 31, 2014

FINANCIAL STATEMENTS

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Statement of Revenues, Expenditures and Changes in Fund Balance – Governmental
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Statement of Changes in Fiduciary Net Position – Fiduciary Funds – 2014
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SUPPLEMENTARY AND OTHER INFORMATION

Schedules of Long-Term Liabilities – 2014
Schedule of Expenditures of Federal Awards – 2014
Notes to the Schedule of Expenditures of Federal Awards – 2014

Kennewick School District No. 017

Balance Sheet

Governmental Funds

August 31, 2014

	General Fund	ASB Fund	Debt Service Fund	Capital Projects Fund	Transportation Vehicle Fund	Permanent Fund	Total
ASSETS:							
Cash and Cash Equivalents	35,339,616.42	1,520,259.04	5,570,691.30	26,709,204.51	545,465.16	0.00	69,685,236.43
Minus Warrants Outstanding	-4,263,416.89	-26,112.94	0.00	-1,367,427.01	0.00	0.00	-5,656,956.84
Taxes Receivable	10,923,319.43		4,733,745.45	0.00	0.00	0.00	15,657,064.88
Due From Other Funds	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Due From Other Governmental Units	848,897.48	0.00	0.00	0.00	0.00	0.00	848,897.48
Accounts Receivable	26,409.41	2,600.00	0.00	0.00	0.00	0.00	29,009.41
Interfund Loans Receivable	0.00			0.00			0.00
Accrued Interest Receivable	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Inventory	473,533.70	0.00					473,533.70
Prepaid Items	0.00	0.00					0.00
Investments	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Investments/Cash With Trustee	821,593.12		0.00	0.00	0.00	0.00	821,593.12
Investments-Deferred Compensation	0.00			0.00			0.00
Self-Insurance Security Deposit	0.00						0.00
TOTAL ASSETS	44,169,952.67	1,496,746.10	10,304,436.75	25,341,777.50	545,465.16	0.00	81,858,378.18
LIABILITIES:							
Accounts Payable	873,234.51	16.56	0.00	0.00	0.00	0.00	873,251.07
Contracts Payable Current	0.00	0.00					0.00
Accrued Interest Payable			0.00				0.00
Accrued Salaries	0.00	0.00					0.00
Anticipation Notes Payable	0.00		0.00				0.00
Payroll Deductions and Taxes Payable	1,891.50	0.00					1,891.50
Due To Other Governmental Units	1,457,574.35	0.00				0.00	1,457,574.35
Deferred Compensation Payable	0.00			0.00			0.00
Estimated Employee Benefits Payable	1,637,174.41						1,637,174.41
Due To Other Funds	0.00	0.00	0.00	0.00	0.00	0.00	0.00

The accompanying notes are an integral part of this financial statement.

Kennewick School District No. 017

Balance Sheet

Governmental Funds

August 31, 2014

	General Fund	ASB Fund	Debt Service Fund	Capital Projects Fund	Transportation Vehicle Fund	Permanent Fund	Total
LIABILITIES:							
Interfund Loans Payable	0.00		0.00	0.00	0.00		0.00
Deposits	0.00	0.00		0.00			0.00
Unearned Revenue	0.00	0.00	0.00	0.00	0.00		0.00
Matured Bonds Payable			0.00				0.00
Matured Bond Interest Payable			1,093.02				1,093.02
Arbitrage Rebate Payable	0.00		0.00	0.00	0.00		0.00
TOTAL LIABILITIES	3,969,874.77	16.56	1,093.02	0.00	0.00	0.00	3,970,984.35
DEFERRED INFLOWS OF RESOURCES:							
Unavailable Revenue	360,754.54	0.00	0.00	0.00	0.00		360,754.54
Unavailable Revenue - Taxes Receivable	10,923,319.43		4,733,745.45	0.00	0.00		15,657,064.88
TOTAL DEFERRED INFLOWS OF RESOURCES	11,284,073.97	0.00	4,733,745.45	0.00	0.00	0.00	16,017,819.42
FUND BALANCE:							
Nonspendable Fund Balance	473,534.00	0.00	0.00	0.00	0.00		473,534.00
Restricted Fund Balance	5,528,691.54	1,496,729.54	5,569,598.28	24,261,738.53	545,465.16		37,402,223.05
Committed Fund Balance	8,680,000.00	0.00	0.00	0.00	0.00		8,680,000.00
Assigned Fund Balance	14,233,778.39	0.00	0.00	1,080,038.97	0.00		15,313,817.36
Unassigned Fund Balance	0.00	0.00	0.00	0.00	0.00		0.00
TOTAL FUND BALANCE	28,916,003.93	1,496,729.54	5,569,598.28	25,341,777.50	545,465.16	0.00	61,869,574.41
TOTAL LIABILITIES, DEFERRED INFLOW OF RESOURCES, AND FUND BALANCE							
	44,169,952.67	1,496,746.10	10,304,436.75	25,341,777.50	545,465.16	0.00	81,858,378.18

The accompanying notes are an integral part of this financial statement.

Kennewick School District No. 017

Statement of Revenues, Expenditures, and Changes in Fund Balance

Governmental Funds

For the Year Ended August 31, 2014

	General Fund	ASB Fund	Debt Service Fund	Capital Projects Fund	Transportation Vehicle Fund	Permanent Fund	Total
REVENUES:							
Local	25,327,808.54	1,768,162.60	10,214,087.75	45,270.38	177.77		37,355,507.04
State	124,169,167.55		0.00	8,850,445.00	505,488.23		133,525,100.78
Federal	13,827,452.67		0.00	0.00	0.00		13,827,452.67
Federal Stimulus	0.00						0.00
Other	468,374.24			24,120.00	0.00	0.00	492,494.24
TOTAL REVENUES	163,792,803.00	1,768,162.60	10,214,087.75	8,919,835.38	505,666.00	0.00	185,200,554.73
EXPENDITURES:							
CURRENT:							
Regular Instruction	86,556,305.84						86,556,305.84
Federal Stimulus	0.00						0.00
Special Education	18,632,610.11						18,632,610.11
Vocational Education	4,639,864.87						4,639,864.87
Skill Center	3,619,556.96						3,619,556.96
Compensatory Programs	10,799,179.22						10,799,179.22
Other Instructional Programs	1,640,836.97						1,640,836.97
Community Services	226,543.96						226,543.96
Support Services	32,600,611.29						32,600,611.29
Student Activities/Other		1,746,320.91				0.00	1,746,320.91
CAPITAL OUTLAY:							
Sites				154,270.65			154,270.65
Building				17,982,385.09			17,982,385.09
Equipment				1,074,210.34			1,074,210.34
Instructional Technology				0.00			0.00
Energy				0.00			0.00
Transportation Equipment					954,847.18		954,847.18
Sales and Lease							0.00
Other	891,424.71						891,424.71
DEBT SERVICE:							
Principal	0.00		6,970,000.00	0.00			6,970,000.00
Interest and Other Charges	0.00		3,031,843.76	0.00			3,031,843.76
Bond/Levy Issuance				0.00			0.00
TOTAL EXPENDITURES	159,606,933.93	1,746,320.91	10,001,843.76	19,210,866.08	954,847.18	0.00	191,520,811.86

The accompanying notes are an integral part of this financial statement.

Kennewick School District No. 017

Statement of Revenues, Expenditures, and Changes in Fund Balance

Governmental Funds

For the Year Ended August 31, 2014

	General Fund	ASB Fund	Debt Service Fund	Capital Projects Fund	Transportation Vehicle Fund	Permanent Fund	Total
DEBT SERVICE:							
REVENUES OVER (UNDER) EXPENDITURES	4,185,869.07	21,841.69	212,243.99	-10,291,030.70	-449,181.18	0.00	-6,320,257.13
OTHER FINANCING SOURCES (USES):							
Bond Sales & Refunding Bond Sales	0.00		0.00	0.00	0.00		0.00
Long-Term Financing	0.00			0.00	0.00		0.00
Transfers In	0.00		0.00	3,000,000.00	300,000.00		3,300,000.00
Transfers Out (GL 536)	-3,300,000.00		0.00	0.00	0.00	0.00	-3,300,000.00
Other Financing Uses (GL 535)	0.00		0.00	0.00	0.00		0.00
Other	0.00		0.00	123,162.22	0.00		123,162.22
TOTAL OTHER FINANCING SOURCES (USES)	-3,300,000.00		0.00	3,123,162.22	300,000.00	0.00	123,162.22
EXCESS OF REVENUES/OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	885,869.07	21,841.69	212,243.99	-7,167,868.48	-149,181.18	0.00	-6,197,094.91
BEGINNING TOTAL FUND BALANCE	27,208,541.74	1,474,887.85	5,357,354.29	32,509,645.98	694,646.34	0.00	67,245,076.20
Prior Year(s) Corrections or Restatements	821,593.12	0.00	0.00	0.00	0.00	0.00	821,593.12
ENDING TOTAL FUND BALANCE	28,916,003.93	1,496,729.54	5,569,598.28	25,341,777.50	545,465.16	0.00	61,869,574.41

The accompanying notes are an integral part of this financial statement.

Kennewick School District No. 017
Statement Of Fiduciary Net Position
Fiduciary Funds
August 31, 2014

	Private Purpose Trust	Other Trust
ASSETS:		
Imprest Cash	5,427.76	0.00
Cash On Hand	0.00	0.00
Cash On Deposit with Cty Treas	0.00	2,674,619.79
Minus Warrants Outstanding	0.00	-4,717.00
Due From Other Funds	0.00	81,044.53
Accounts Receivable	0.00	0.00
Accrued Interest Receivable	0.00	0.00
Investments	0.00	0.00
Investments/Cash With Trustee	0.00	0.00
Other Assets	0.00	0.00
Capital Assets, Land	0.00	0.00
Capital Assets, Buildings	0.00	0.00
Capital Assets, Equipment	0.00	0.00
Accum Depreciation, Buildings	0.00	0.00
Accum Depreciation, Equipment	0.00	0.00
TOTAL ASSETS	5,427.76	2,750,947.32
LIABILITIES:		
Accounts Payable	0.00	5.62
Due To Other Funds	0.00	433,370.22
TOTAL LIABILITIES	0.00	433,375.84
NET POSITION:		
Held in trust for:		
Restricted for Other Items	0.00	0.00
Restricted for Self Insurance	0.00	0.00
Restricted for Uninsured Risks	0.00	0.00
Nonspendable -- Trust Principal	0.00	0.00
Committed to Other Purposes	0.00	0.00
Held In Trust For Private Purposes	0.00	0.00
Assigned to Fund Purposes	5,427.76	2,317,571.48
Held In Trust For Pension And Other Employee Benefits	0.00	0.00
Unassigned Fund Balance	0.00	0.00
TOTAL NET POSITION	5,427.76	2,317,571.48

The accompanying notes are an integral part of this financial statement.

Statement of Changes in Fiduciary Net Position

Fiduciary Funds

For the Year Ended August 31, 2014

	Private Purpose Trust	Other Trust
ADDITIONS:		
Contributions:		
Private Donations	5,185.56	0.00
Employer		4,067,380.55
Members		0.00
Other	0.00	0.00
TOTAL CONTRIBUTIONS	5,185.56	4,067,380.55
Investment Income:		
Net Appreciation (Depreciation) in Fair Value	0.00	0.00
Interest and Dividends	0.00	2,880.85
Less Investment Expenses	0.00	0.00
Net Investment Income	0.00	2,880.85
Other Additions:		
Rent or Lease Revenue	0.00	0.00
Total Other Additions	0.00	0.00
TOTAL ADDITIONS	5,185.56	4,070,261.40
DEDUCTIONS:		
Benefits		3,906,556.84
Refund of Contributions	0.00	0.00
Administrative Expenses	0.00	0.00
Scholarships	6,792.55	
Other	0.00	0.00
TOTAL DEDUCTIONS	6,792.55	3,906,556.84
Net Increase (Decrease)	-1,606.99	163,704.56
Net Position--Beginning	7,034.75	2,153,866.92
Prior Year(s) Corrections or Restatements	0.00	0.00
NET POSITION--ENDING	5,427.76	2,317,571.48

The accompanying notes are an integral part of this financial statement.

Kennewick School District #17
Notes to Financial Statements
September 1, 2013 through August 31, 2014

Note 1: Summary of Significant Accounting Policies

The Kennewick School District #17 is a municipal corporation organized pursuant to Title 28A Revised Code of Washington (RCW) for the purpose of providing public school services to students in grades K–12. Oversight responsibility for the district's operations is vested with the independently elected board of directors. Management of the district is appointed by and is accountable to the board of directors. Fiscal responsibility, including budget authority and the power to set fees, levy property taxes, and issue debt consistent with provisions of state statutes, also rests with the board of directors.

The District presents governmental fund financial statements and related notes on the modified accrual basis of accounting in accordance with the *Accounting Manual for Public School Districts in the State of Washington*, issued jointly by the State Auditor's Office and the Superintendent of Public Instruction by the authority of RCW 43.09.200, RCW 28A.505.140, RCW 28A.505.010(1) and RCW 28A.505.020.

Fund Accounting

Financial transactions of the District are reported in individual funds. Each fund uses a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures (or expenses) as appropriate. All funds are considered major funds. The various funds in the report are grouped into governmental (and fiduciary) funds as follows:

GOVERNMENTAL FUNDS

General Fund

This fund is used to account for all expendable financial resources, except those required to be accounted for in another fund. In keeping with the principle of as few funds as necessary, activities such as food services, maintenance, data processing, printing, and student transportation activities are included in the General Fund.

Capital Projects Funds

These funds account for financial resources that are to be used for the construction or acquisition of major capital assets. There are two funds that are considered to be of the capital projects fund type: the Capital Projects Fund and the Transportation Vehicle Fund. Capital Projects Fund. This fund is used to account for resources set aside for the acquisition and construction of major capital assets such as land and buildings.

Transportation Vehicle Fund. This fund is used to account for the purchase, major repair, rebuilding, and debt service expenditures related to pupil transportation equipment.

Debt Service Fund

This fund is used to account for the accumulation of resources for and the payment of matured general long-term debt principal, interest.

Special Revenue Funds

In Washington State, the only allowable special revenue fund for school districts is the Associated Student Body (ASB) Fund. This fund is accounted for in the District's financial statements as the financial resources legally belong to the District. As a special revenue fund, amounts within the ASB Fund may only be used for those purposes that relate to the operation of the Associated Student Body of the district.

FIDUCIARY FUNDS

Fiduciary funds that include pension and other employee benefit trust funds, private-purpose trust funds, and agency funds, are used to account for assets held by the district in a trustee and agency capacity. Effective September 1, 2007, the district began accounting for self-insured dental and self-insured workers' compensation programs within a fiduciary fund. Premiums are deposited into the fund. Dental and workers' compensation claims are paid from the fund.

Private-Purpose Trust Fund.

This fund is used to account for resources that are legally held in trust by the District. The trust agreement details whether principal and interest may both be spent, or whether only interest may be spent. Money from a Private-Purpose Trust Fund may not be used to support the District's programs, and may be used to benefit individuals, private organizations, or other governments.

Measurement focus, and basis of accounting and fund financial statement presentation.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are measurable and available. Revenues are considered "measurable" if the amount of the transaction can be readily determined. Revenues are considered "available" when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the District considers revenues to be available if they are collected within 60 days after year-end. Property taxes receivable are measurable but not available and are, therefore, not accrued. Categorical program claims and inter-district billings are measurable and available and are, therefore, accrued.

Expenditures are recorded in the period in which the benefit is received or when the goods or services are used. Unmatured principal and interest on long-term debt which are recorded when due. For federal grants, the recognition of expenditures is dependent on the obligation date. (Obligation means a purchase order has been issued, contracts have been awarded, or goods and/or services have been received.)

Budgets

Chapter 28A.505 RCW and Chapter 392-123 Washington Administrative Code (WAC) mandate school district budget policies and procedures. The board adopts annual appropriated budgets for all governmental funds. These budgets are appropriated at the fund level. The budget constitutes the legal authority for expenditures at that level. Appropriations lapse at the end of the fiscal period.

Budgets are adopted on the same modified accrual basis as used for financial reporting. Fund balance is budgeted as available resources and, under statute, may not be negative, unless the District enters into binding conditions with state oversight pursuant to RCW 28A.505.110.

The government's policy regarding whether to first apply restricted or unrestricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

The Kennewick School District #17 receives state funding for specific categorical education-related programs. Amounts that are received for these programs that are not used in the current fiscal year may be carried forward into the subsequent fiscal year, where they may be used only for the same purpose as they were originally received. When the district has such carryover, those funds are expended before any amounts received in the current year are expended.

Additionally, the District has other restrictions placed on its financial resources. When expenditures are recorded for purposes for which a restriction or commitment of fund balance is available, those funds that are restricted or committed to that purpose are considered first before any unrestricted or unassigned amounts are expended.

The government's fund balance classifications policies and procedures.

The district classifies ending fund balance for its governmental funds into five categories.

Non-spendable Fund Balance. - The amounts reported as Non-spendable are resources of the district that are not in spendable format. They are either non-liquid resources such as inventory or prepaid items, or the resources are legally or contractually required to be maintained intact.

Restricted Fund Balance - Amounts that are reported as Restricted are those resources of the district that have had a legal restriction placed on their use either from statute, WAC, or other legal requirements that are beyond the control of the board of directors. Restricted fund balance includes anticipated recovery of revenues that have been received but are restricted as to their usage.

Committed Fund Balance. - Amounts that are reported as Committed are those resources of the district that have had a limitation placed upon their usage by formal action of the district's board of directors. Commitments are made either through a formal adopted board resolution or are related to a school board policy. Commitments may only be changed when the resources are used for the intended purpose or the limitation is removed by a subsequent formal action of the board of directors.

The board of directors has established a minimum fund balance policy for the general fund to provide for financial stability and contingencies within the district. The policy is that the district shall maintain "The unreserved/undesignated fund balance shall be maintained at a minimum of

3% and within a range of 3% to 5% of the general fund budget. Should the Board authorize use of the unreserved undesignated fund balance below the 3% level, the superintendent or designee, will prepare a financial plan identifying how the reserve will be returned to the 3% level". For the 2013–14 fiscal year, the amount Committed to this minimum fund balance policy is \$8,680,000, which is 5.26% and is the amount reported as Committed Fund Balance on the financial statements.

Assigned Fund Balance. - In the General Fund, amounts that are reported as Assigned are those resources that the district has set aside for specific purposes. These accounts reflect tentative management plans for future financial resource use such as the replacement of equipment or the assignment of resources for contingencies. Assignments reduce the amount reported as Unassigned Fund Balance, but may not reduce that balance below zero.

In other governmental funds, Assigned fund balance represents a positive ending spendable fund balance once all restrictions and commitments are considered. These resources are only available for expenditure in that fund and may not be used in any other fund without formal action by the district's board of directors and as allowed by statute.

The Executive Director of Business Operations or designee is the only person who has the authority to create Assignments of fund balance

Unassigned Fund Balance. In the General Fund, amounts that are reported as Unassigned are those net spendable resources of the district that are not otherwise Restricted, Committed, or Assigned, and may be used for any purpose within the General Fund.

In other governmental funds, Unassigned fund balance represents a deficit ending spendable fund balance once all restrictions and commitments are considered.

A negative Unassigned fund balance means that the legal restrictions and formal commitments of the district exceed its currently available resources.

Cash and Cash Equivalents

All of the district's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

Note 2: Cash Deposits with Financial Institutions

Cash Deposits with Financial Institutions

The Benton County Treasurer is the *ex officio* treasurer for the District and holds all accounts of the District. The District directs the County Treasurer to invest those financial resources of the district that the District has determined are not needed to meet the current financial obligations of the District.

All of the district's investments (except for investments of deferred compensation plans) during the year and at year end were insured or registered and held by the District or its agent in the District's name.

The district's investments as of August 31, 2014, are as follows:

	Number of Securities	Carrying Amount	Market Value
Certificates of Deposit or Other Time Deposits			
Repurchase Agreements			
Bankers' Acceptance			
Obligations of the U.S. Government or Its Subsidiary Corporations			
Investments Held by Broker-Dealers Under Reverse Repurchase Agreements: U.S. Government Securities U.S. Instrumentality Securities			
State Treasurer's Investment Pool			
County Treasurer's Investment Pool		66,579,147	66,579,147
Total Investments		66,579,147	66,579,147

Receivables and Payables

All receivables are expected to be collected within one year.

Inventory

Inventory is valued at cost using the first-in, first-out (FIFO) method. The consumption method of inventory is used, which charges inventory as an expenditure when it is consumed. A portion of fund balance, representing inventory, is considered Non-spendable. Such reserves for inventory indicate that a portion of net current assets is set aside to replace or increase the inventory. USDA commodity inventory consists of food donated by the United States Department of Agriculture. It is valued at the prices paid by the USDA for the commodities.

Accounting and Reporting Changes for 2013-2014

Effective for the 2013-2014 school year, the district implemented provisions of GASB Statement No. 65 Items Previously Reported as Assets and Liabilities. As a result, deferred property taxes were reclassified from liabilities to deferred inflows of resources.

Capital Assets

All fixed assets are valued at historical cost or estimated historical cost if actual cost is unknown. Donated fixed assets are valued at their estimated fair value on the date donated. Depreciation is not recognized on general capital assets. Only assets of \$5,000 or greater are recognized as Capital Assets for the Financial Reports.

Revenue and Expenditure Recognition

Debt Service

Principal and interest on general long-term debt is recognized only when due.

Note 3: Property Taxes

Property Taxes

Property tax revenues are collected as the result of special levies passed by the voters in the district. Taxes are levied on January 1. The taxpayer has the option of paying all taxes on April 30 or one-half then and one-half on October 31. Typically, slightly more than half of the collections are made on the April 30 date. The October 31 collection is not available in time to cover liabilities for the fiscal period ended August 31. Therefore, the fall portion of property taxes is not accrued as revenue. Instead, the taxes due on October 31 are recorded as deferred revenue.

Note 4: Compensated Absences

Compensated Absences

Employees earn sick leave at a rate of 10 or 12 days per year up to a maximum of one contract year.

Under the provisions of RCW 28A.400.210, sick leave accumulated by district employees is reimbursed at death or retirement at the rate of one day for each four days of accrued leave, limited to 180 accrued days. This chapter also provides for an annual buy out of an amount up to the maximum annual accumulation of 12 days. For buyout purposes employees may accumulate such leave to a maximum of 192 days, including the annual accumulation, as of December 31 of each year. These expenditures are recorded when paid. Vacation pay, including benefits, that is expected to be liquidated with expendable available financial resources is reported as expenditures when paid.

No unrecorded liability exists for other employee benefits.

Note 5: Fund Balance Classification Details

The district's financial statements include the following amounts presented in the aggregate.

Non-spendable Fund Balance	General Fund	ASB Fund	CPF	DSF	TVF
Inventory and Prepaid Items	473,534	0	0	0	0
Restricted Fund Balance					
Carryover of Restricted Revenues	5,528,692	1,496,730	24,261,739	5,569,598	545,465
Debt Service	0	0	0	0	0
Arbitrage Rebate	0	0	0	0	0
Uninsured Risks	0	0	0	0	0
Other Items	0	0	0	0	0
Committed Fund Balance					
Minimum Fund Balance Policy	8,680,000	0	0	0	0
Other Commitments	0	0	0	0	0
Assigned Fund Balance					
Contingencies	14,233,778	0	1,080,039	0	0
Other Capital Projects	0	0	0	0	0
Other Purposes	0	0	0	0	0
Fund Purposes	0	0	0	0	0

Capital Assets

	BALANCE 9/1/13	ADDITIONS	DELETIONS	BALANCE 8/31/14
LAND	14,245,388	154,271	0	14,399,659
BUILDINGS	377,042,610	162,965,648	0	540,008,258
TRANSPORTATION EQUIPMENT	5,505,212	954,064	0	6,459,276
OTHER EQUIP & MACHINERY	18,539,432	478,380	(13,241,313)	5,776,499
CONSTRUCTION IN PROGRESS	10,237,118	14,426,474	(12,290,068)	12,373,524
TOTAL	425,582,760	178,839,837	(25,531,381)	578,891,216

The district's buildings and contents are insured in the amount of \$561,950,856 fiscal 2014. Values were increased from prior year based on using current cost per square foot to replace. In the opinion of the district's insurance consultant, this amount is sufficient to adequately fund replacement of the district's assets.

Kennewick School District has a total of 112 buses which 49 are fully depreciated and 63 are on the schedule for a total dollar amount of \$3,400,873 of state obligated cost.

Note 6: Construction and Other Significant Commitments, Including Encumbrances

Construction in progress is composed of:

Project	Project Authorization Amount	Expended FY 2014	Expended as of 8/31/2014	Additional Local Funds Committed	Additional State Funds Committed
Sunset View Elem	0	0	0	0	0
Canyon View Elem	0	0	0	0	0
Southgate Elem	0	0	0	0	0
Cascade Elem	11,013,932	119,088	10,506,361	0	0
Lincoln Elem	11,271,339	9,486,380	10,696,736	0	0
Eastgate Elem	13,975,950	2,684,600	2,684,600	0	0
Total	36,261,221	12,290,068	23,887,697	0	0

Encumbrances

Encumbrance accounting is employed in governmental funds. Purchase orders, contracts, and other commitments for the expenditure of moneys are recorded in order to reserve a portion of the applicable appropriation. Encumbrances lapse at the end of the fiscal year and may be re-encumbered the following year. Encumbrances in the amount of \$847,696.33 within the General Fund were accrued August 31, 2014 and re-encumbered on September 1, 2014.

Note 7: Annual Pension Cost & Net Pension Obligations

A. General Information

Substantially all District full-time and qualifying part-time employees participate in one of the following three contributory, multi-employer, cost-sharing statewide retirement systems managed by the Washington State Department of Retirement Systems (DRS): Teachers' Retirement System (TRS), Public Employees' Retirement System (PERS) and School Employees' Retirement System (SERS). Participation in the programs was as follows:

Membership by retirement system program as of June 30, 2012:

Program	Active Members	Inactive Vested Members	Retired Members
TRS	65,357	9,545	42,918
PERS	150,590	30,515	82,242
SERS	51,558	10,920	7,651

Membership by retirement system program as of June 30, 2013:

<u>Program</u>	<u>Active Members</u>	<u>Inactive Vested Members</u>	<u>Retired Members</u>
TRS	65,935	9,823	44,220
PERS	150,706	31,047	85,328
SERS	52,295	11,588	9,079

Certificated public employees are members of TRS. Noncertificated public employees are members of PERS (if Plan 1) or SERS.

Plan 1 under the TRS and PERS programs are defined benefit pension plans whose members joined the system on or before September 30, 1977. Plan 1 members are eligible to retire with full benefits after five years of credited service and attainment of age 60, after 25 years of credited service and attainment of age 55, or after 30 years of credited service.

Plan 2 under the TRS or SERS programs are defined benefit pension plans whose members joined on or after October 1, 1977, but before June 30, 1996 or August 31, 2000, for TRS or SERS programs, respectively. Members of TRS and SERS are eligible to retire with full benefits after five years of credited service and attainment of age 65 or after 20 years of credited service and attainment of age 55 with the benefit actuarially reduced from age 65, or 30 years of credited service and receive either a reduced benefit or stricter return-to-work rules.

Plan 3 under the TRS and SERS programs are defined benefit, defined contribution pension plans whose members joined on or after July 1, 1996, or September 1, 2000, for TRS and SERS, respectively. Members are eligible to retire with full benefits at age 65, or they may retire at age 55 with at least ten service years with a reduced benefit amount, or they may retire at age 55 with at least 30 service years and receive either a reduced benefit or stricter return-to-work rules.

Average final compensation (AFC) of Plan 1 TRS and PERS members is the highest average salary during any two consecutive years. For Plan 2 and Plan 3 TRS and SERS members, it is the highest average salary during any five consecutive years.

The retirement allowance of Plan 1 TRS and PERS members is the AFC multiplied by 2 percent per year of service capped at 60 percent with a cost-of-living adjustment. For Plan 2 TRS and SERS members, it is the AFC multiplied by 2 percent per year of service with provision for a cost-of-living adjustment. For the defined benefit portion of Plan 3 TRS and SERS it is the AFC multiplied by 1 percent per year of service with a cost-of-living adjustment.

The employer contribution rates for PERS, TRS, and SERS (Plans 1, 2, and 3) and the TRS and SERS Plan 2 employee contribution rates are established by the Pension Funding Council based upon advice from the Office of the State Actuary. The employee contribution rate for Plan 1 in PERS and TRS is set by statute at 6 percent and does not vary from year to year. The employer rate is the same for all plans in a system. The methods used to determine the contribution requirements are established under chapters 41.40, 41.32, and 41.35 RCW for PERS, TRS and SERS respectively.

The district contribution represents its full liability under both systems, except that future rates may be adjusted to meet the system needs.

B. Contributions

Employee contribution rates September 1, 2013 through August 31, 2014:

Plan 1 TRS	6.00%	Plan 1 PERS	6.00%
Plan 2 TRS	4.96%	Plan 2 SERS	4.64%
Plan 3 TRS and SERS	5.00% (minimum), 15.00% (maximum)		

For Plan 3 TRS and SERS: Member-selected rate between 5 percent and 15 percent, depending on plan options.

Employer contribution rates effective September 1, 2013 through August 31, 2014:

Plan 1 TRS	10.39%	Plan 1 PERS	9.21%
Plan 2 TRS	10.39%	Plan 2 SERS	9.82%
Plan 3 TRS	10.39%	Plan 3 SERS	9.82%

Under current law the employer must contribute 100 percent of the employer-required contribution. Employer required contributions in dollars (Participant information for all plans is as of August 31, 2014).

Plan	FY14	FY13	FY12
Plan 1 TRS	167,517	179,889	223,064
Plan 2 TRS	1,284,510	918,233	702,946
Plan 3 TRS	5,660,829	4,170,461	3,533,497
Plan 1 PERS	47,537	46,629	44,633
Plan 2 SERS	720,846	517,037	368,822
Plan 3 SERS	1,321,781	958,774	750,232

Historical trend information showing, TRS, PERS and SERS progress in accumulating sufficient assets to pay benefits when due is presented in the state of Washington's June 30, 2014, comprehensive annual financial report. Refer to this report for detailed trend information. It is available from:

State of Washington
Office of Financial Management
300 Insurance Building
PO BOX 43113
Olympia, WA 98504-3113

Note 8: Annual Other Post-Employment Benefit Cost and Net OPEB Obligations

The State, through the Health Care Authority (HCA), administers an agent multi-employer Other Post-Employment Benefit plan. The Public Employees Benefits Board (PEBB), created within the HCA, is authorized to design benefits and determine the terms and conditions of employee and retired employee participation and coverage, including establishment of eligibility criteria for both active and retired employees. Programs include (medical, dental, life insurance and long-term disability insurance).

Employers participating in the plan include the State of Washington (which includes general government agencies and higher education institutions), 57 of the state's K-12 school districts

and educational service districts (ESDs), and 206 political subdivisions and tribal governments. Additionally, the PEBB plan is available to the retirees of the remaining 247 K-12 school districts and ESDs. The District's retirees are eligible to participate in the PEBB plan under this arrangement.

According to state law, the Washington State Treasurer collects a fee from all school district entities which have employees that are not current active members of the state Health Care Authority but participate in the state retirement system. The purpose of this fee is to cover the impact of the subsidized rate of health care benefits for school retirees that elect to purchase their health care benefits through the state Health Care Authority. For the fiscal year 2013-2014 the District was required to pay the HCA \$64.40 per month per full-time equivalent employee to support the program, for a total payment of \$1,326,322. This assessment to the district is set forth in the State's operating budget and is subject to change on an annual basis. This amount is not actuarially determined and is not placed in a trust to pay the obligations for post-employment health care benefits.

The District has no control over the benefits offered to retirees, the rates charged to retirees, nor the fee paid to the Health Care Authority. The district does not determine its Annual Required Contribution nor the Net Other Post-Employment Benefit obligation associated with this plan. Accordingly, these amounts are not shown on the financial statements. This is a departure from GAAP.

Note 9: Entity Risk Management

Unemployment

The Kennewick School District is a member of the Cooperative Unemployment Compensation Insurance Pool.

In fiscal year 1978, school districts within Education Service District (ESD)#123 joined together to form the Cooperative Unemployment Compensation Insurance Pool, a public entity risk pool currently operating as a common risk management and insurance program for unemployment compensation. Seventeen districts, including ESD #123, have joined the pool. Members pool their self-insured losses and administrative services and have established a plan of self-insurance and related services, such as risk management, claims administration, etc. Coverage is on an "occurrence" basis. Members make an annual contribution to the fund based on their total gross payroll and unemployment history during the preceding year. The pool is fully funded by its member participants. The financial statements of the pool may be obtained by contacting Educational Service District 123. KSD amount as of 8/31/14, is \$695,436.

The pool is governed by a Cooperative Board, which is comprised of one designated representative from each participating members and a six member Executive Board. Five members elected by the Cooperative Board and the ESD Superintendent comprise the Executive Board. ESD #123 is responsible for conducting the business affairs of the pool.

Risk Management

The Kennewick School District is a member of the Schools Insurance Association of Washington. Chapter 48.62 RCW authorizes the governing body of any one or more

governmental entities to form together into or join a pool or organization for the joint purchasing of insurance, and/or joint self-insuring, and/or joint hiring or contracting for risk management services to the same extent that they may individually purchase insurance, self-insure or hire contract for risk management services. An agreement to form a pooling arrangement was made pursuant to the provisions of Chapter 39.34 RCW, the Interlocal Cooperation Act. The pool was formed on September 1, 1995, when 7 mid-sized school districts in the State of Washington joined together by signing an Interlocal Agreement to pool their self-insured losses and jointly purchase insurance and administrative services. Presently, the SIAW pool has 42 member districts.

The program allows members to jointly purchase insurance coverage and provide related services, such as administration, risk management, claims administration, etc. Coverage for Wrongful Act Liability and Employee Benefit Liability is on a claims-made basis. All other coverage's are on an occurrence basis. The pool provides the following forms of group purchased insurance coverage for its members: property, earthquake, liability, automotive liability, equipment breakdown, crime, employee benefits and wrongful act liability.

The pool acquires liability insurance from unrelated underwriters that are subject to a per occurrence deductible of \$100,000. Members are responsible for the \$2,500 deductible for each claim, while the program is responsible for the \$100,000, self-insured retention. Insurance carriers cover insured losses over \$102,500 to the limits of each policy. Since the pool is a cooperative program, there is a joint liability among the participating members towards the sharing of the \$100,000 of the self-insured retention. The program also purchases a Stop Loss Policy with attachment point of \$3,400,000 which it fully funds in its annual budget.

Property insurance is subject to a per-occurrence self-insured retention of \$250,000. Members are responsible for a \$10,000 deductible amount for each claim. The pool is responsible for the remaining \$250,000 deductible. Equipment breakdown insurance is subject to a per-occurrence deductible of \$10,000. Members are responsible for the deductible amount of each claim.

Members contract to remain in the pool for one year and must give notice before December 31 before terminating participation the following September 1. Renewal of the Interlocal Agreement occurs automatically each year. Even after termination, a member is still responsible for contributions to the pool for any unresolved, unreported, and in-process claims for the period they were a signatory to the Interlocal Agreement.

The program is fully funded by its member participants. Claims are filed by members with Canfield & Associates, which has been contracted to perform pool administration, claims adjustment and administration and loss prevention for the pool. Fees paid to the third party Administrator under this arrangement for the year ended August 31, 2014 were \$2,956,785.

A Board of directors of eight members is selected by the membership from the east and west side of the state and is responsible for conducting the business affairs of the program. The Board of directors has contracted with Canfield to perform day-to-day administration of the pool. This program has no employees.

Compensated Absences Pool

In the fiscal year 2013-14, five school districts and Educational Service District (ESD) #123 make up the membership of a Compensated Absences Pool. The purpose of the Pool is to

allow members to accumulate funds for payments of accrued sick and/or annual leave due to annual cash out, termination, retirement and/or death of employees. Members make contributions to the Pool based on a self selected percentage of their total gross payroll. Payroll contributions are made to the Pool at the time leave is earned to serve assets for expenditures related to leave buy out consistent with district policy. Such expenditures are recorded at the time leave is earned rather than at the time of cash out. Expenditures of leave taken during employment continue to be recorded when paid. The Pool is fully funded by its member participants. The financial statements of the Pool may be obtained by contacting Educational Service District No. 123. KSD's amount as of 8/31/14, is \$821,593. The amount is shown on the Kennewick School District's Financial Statements. This amount is shown as a prior period adjustment.

Note 10: Post-Employment Benefit Plans Other Than Pension Plans-Both In Separately Issued Plan Financial Statements and Employer Statements

457 Plan – Deferred Compensation Plan

District employees have the option of participating in an IRC, Section 457, Deferred Compensation Plan administered by the District, a state retirement system or another governmental entity. The District retains a right of legal access to the plan assets (valued at market) until paid or made available to the employees, subject only to the claims of the District's general creditor.

403(b) Plan – Tax Sheltered Annuity (TSA)

The district offers a tax deferred annuity plan for its employees. The plan permits participants to defer a portion of their salary until future years under two types of deferrals: elective deferrals (employee contribution) and non-elective contribution (employer matching).

The district complies with IRS regulations that require school districts to have a written plan to include participating investment companies, types of investments, loans, transfers, and various requirements. The plan is administered by a third party administrator. The plan assets are assets of the SD employees, not the school district, and are therefore not reflected on these financial statements.

Note 11: Commitments Under Noncapitalized (Operating) Leases

Lease Obligations and Conditional Sales Contract Obligations

Kennewick School District #17 has no lease obligations and/or Conditional Sales Contract obligations as of August 31, 2014.

Note 12: Required Disclosures about Long-Term Liabilities

Long-Term Debt

A. Bonds payable at August 31, 2014, are comprised of the following issue:

BOND MATURITY SCHEDULE		
Election Date, May 19, 2009		
ISSUE OF June 2009	GENERAL OBLIGATION	68,000,000.00
	EFFECTIVE RATE OF INTEREST	3.9953%
	<u>RATE OF INTEREST</u>	
2012 -	3.375%-5.00%	
2013 -	5.00%	
2014 -	4.000%-5.00%	
2015 -	3.375%-5.00%	
2016 -	5.00%	
2017 -	5.00%	
2018 -	4.00%	
2019 -	4.00%	
2020 -	5.00%	
2021 -	5.00%	
2022 -	4.75%	
2023 -	4.75%	
2024 -	4.875%-5.00%	
2025 -	5.125%	
2026 -	5.25%	
2027 -	5.25%	
2028 -	5.00%	
BONDS RETIRED THRU DECEMBER 1, 2012		8,920,000
BONDS OUTSTANDING:		
December 1, 2014	4.00%-5.00%	7,520,000
December 1, 2015	3.375%-5.00%	8,080,000
December 1, 2016	5.00%	2,020,000
December 1, 2017	5.00%	2,200,000
December 1, 2018	4.00%	2,395,000
December 1, 2019	4.00%	2,580,000
December 1, 2020	5.00%	2,770,000
December 1, 2021	5.00%	3,000,000
December 1, 2022	4.75%	3,240,000
December 1, 2023	4.75%	3,485,000
December 1, 2024	4.875%-5.00%	3,750,000
December 1, 2025	5.125%	4,030,000
December 1, 2026	5.25%	4,335,000
December 1, 2027	5.25%	4,665,000
December 1, 2028	5.00%	<u>5,010,000</u>
		<u>59,080,000</u>
		<u>68,000,000</u>

- B. The following is a summary of general obligation long-term debt transactions of the District for the year ended August 31, 2014.

Long-Term Debt Payable at 9/1/13	66,050,000
New Issues and Refunding	-0-
Debt Retired and Defeased	6,970,000
Long-Term Debt Payable at 8/31/14	59,080,000

- C. Annual Requirements to Amortize Long-Term Debt August 31, 2014

YEAR ENDING AUGUST 31	PRINCIPAL	INTEREST	TOTAL
2015	7,520,000.00	2,682,193.76	10,202,193.76
2016	8,080,000.00	2,318,787.51	10,398,787.51
2017	2,020,000.00	2,080,281.26	4,100,281.26
2018	2,200,000.00	1,974,781.26	4,174,781.26
2019	2,395,000.00	1,871,881.26	4,266,881.26
2020	2,580,000.00	1,772,381.26	4,352,381.26
2021	2,770,000.00	1,651,531.26	4,421,531.26
2022	3,000,000.00	1,507,281.26	4,507,281.26
2023	3,240,000.00	1,355,331.26	4,595,331.26
2024	3,485,000.00	1,195,612.51	4,680,612.51
2025	3,750,000.00	1,021,190.63	4,771,190.63
2026	4,030,000.00	826,268.75	4,856,268.75
2027	4,335,000.00	609,206.25	4,944,206.25
2028	4,665,000.00	372,956.25	5,037,956.25
2029	5,010,000.00	125,250.00	5,135,250.00
TOTAL	59,080,000.00	21,364,934.48	80,444,934.48

At August 31, 2014, the district had 5,570,691 in the Debt Service Fund to service the General Obligation Bonds.

Note 13: Other Disclosures

Skill Center:

The District is the host district for the Tri-Tech Skills Center, a regional program designed to provide career and technical education opportunities to students in participating districts. The purpose of a Skills Center is to enhance the career and technical education course offerings among districts by avoiding unnecessary duplication of courses.

The Tri-Tech Skills Center was created through an agreement of the 7 member districts. The Skills Center is governed by an Administrative Council, comprised of the superintendents, or their appointed representatives, of all member districts. The Skills Center administration is handled through a director, employed by the District.

As host district, the District has the following responsibilities:

1. Employ staff of the Skills Center.
2. Act as fiscal agent for the Skills Center and maintain separate accounts and fund balances for each fund. Financial operations of this facility are included in these financial statements in the amount of revenues totaling \$4,115,120 and expenditures totaling \$3,589,481. Comparable revenues and expenditures totaled \$3,778,790 and \$3,323,616 respectively, during the preceding year.
3. Review and adopt the Skills Center budget as a part of the District's overall budget.
4. Provide such services as may be mutually agreed upon by the District and the Skills Center.

Sources of Funding

The Skills Center is primarily funded by state apportionment, based on the number of students who attend the Skills Center. Other sources of income include federal grants from the Carl D. Perkins program, tuition and fees, and payments from member districts.

Capital Improvements

The District collects an annual fee from all participating districts for the Capital Projects Maintenance Fund. These funds are used for the maintenance and related capital improvements of Skills Center facilities. Fees are collected from each member district in accordance with the interlocal agreement signed by all member districts. Any amounts collected that have not been expended for capital purposes are recorded as a restriction of the District's Capital Projects Fund balance.

Unspent Funds

Any funds remaining at the end of the year from Skills Center operations are recorded as a restriction of the district's General Fund balance, and are to be used for financing future operations of the Skills Center. Member districts do not have claim to any unspent funds of the Skills Center.

The following districts are member districts of the Skills Center: Kennewick, Pasco, Richland, Kiona-Benton, Columbia-Burbank, Finley and North Franklin.

In addition, the Walla Walla School District operates a branch campus of the Tri-Tech Skills Center. As a branch campus, the district is allowed to claim its own students and receive direct Skills Center funding for those students.

The statements of that district reflect the portion of total Skills center operations that pertain to the operation of the branch campus alone.

Self-Funded Dental Plan

The Kennewick School District maintains a Self-funded Dental Plan as part of the district Fiduciary Fund. The Self-Funded Dental Plan is administered by the Kennewick School District Insurance Committee. The third party administrator is Assurant Employee Benefits. Premiums are deposited into the fund and claims are paid from the fund. The liability of the Self-Funded Dental Plan reported at August 31, 2014 including incurred but not reported claims, totals \$433,370. Plan assets total \$1,199,448 at August 31, 2014.

Self-Funded Industrial Insurance

The district has been self-insured since October 1, 2005, for industrial insurance. The district Self-Insured Industrial Insurance Program is administered through the district Fiduciary Fund. Cash collected through workers' compensation premiums is deposited into the fund and claims are paid from the fund. The estimated liability for claims from October 1, 2005, to August 31, 2014 is \$491,512. Total workers compensation premiums collected and available to pay estimated claims and future claims totals \$2,878,299 with \$1,470,455 held in the district Fiduciary fund and \$1,412,480 held in the General Fund.

The district has purchased both per occurrence and aggregated stop-loss reinsurance protection. The district maintains a per occurrence self-insurance retention limit \$450,000 and an aggregate excess limit of \$1,000,000 over its retention.

Note 14: Joint Venture and Jointly Governed Organizations

KCDA Purchasing Coop:

The district is a member of the King County Directors' Association, a purchasing cooperative consisting of 294 school districts from throughout the state. The district's equity, in this cooperative, totaled \$113,689 as of December 31, 2013. The district has the right to withdraw its equity, subject to certain restrictions, over a period of up to fifteen years. During the 2013 school year, the district's purchases from this cooperative totaled \$2,574,855 as compared with \$1,484,554 during the 2012 school year.

DELTA High School/STEM:

In 2009 the district entered into an inter-cooperative agreement with Richland and Pasco School districts to establish Delta High School. The school opened for the 2009/2010 school year offering students a Science, Technology, Engineering, and Mathematics (STEM) focused curriculum. The school is scheduled to enroll 100 students each year for a target capacity of 400 students in school year 2013/2014. Each of the three participating districts is allotted a

share of student seats to fill. The school operates out of facilities owned by Columbia Basin College located within the Richland School District. Educational Service District 123 serves as the fiscal agent for the program.

Note 15: Contingent Liabilities

Litigation

Fourteen former students have filed suit against the district claiming the district failed to protect them from a former teacher who sexually molested them. Six of the fourteen claims occurred during a timeline that is no longer covered by insurance due to the insurer dissolving operations. While final resolution of this suit is not feasible to predict, in the opinion of administration, ultimate liability, if any, is not likely to materially affect the operations or the financial position of the district.

Note 16: Significant Effects of Subsequent Events

\$89.5M General Obligation Bond

On February 10, 2015, Proposition 1 to issue \$89.5M in general obligation bonds was passed by the voters of the district with a 64.55% approval percentage. The debt will fund the construction of a two new middle schools including one to replace Desert Hills, three new elementary schools including one to replace Westgate Elementary School, and other district wide improvements.

Interfund Loans

There were no interfund loans for Fiscal Year 2013-2014.

Kennewick School District No. 017
 Schedule of Long-Term Liabilities: GENERAL FUND
 For the Year Ended August 31, 2014

Description	Beginning Outstanding Debt September 1, 2013	Amount Issued / Increased	Amount Redeemed / Decreased	Ending Outstanding Debt August 31, 2014	Amount Due Within One Year
Non-Voted Debt and Liabilities					
Capital Leases	0.00	0.00	0.00	0.00	0.00
Contracts Payable	0.00	0.00	0.00	0.00	0.00
Non-Cancellable Operating Leases	0.00	0.00	0.00	0.00	0.00
Claims & Judgements	0.00	0.00	0.00	0.00	0.00
Compensated Absences	7,188,782.50	1,332,976.16	0.00	8,521,758.66	1,842,060.57
Long-Term Notes	0.00	0.00	0.00	0.00	0.00
Anticipation Notes Payable	0.00	0.00	0.00	0.00	0.00
Lines of Credit	0.00	0.00	0.00	0.00	0.00
Other Non-Voted Debt	0.00	0.00	0.00	0.00	0.00
Other Liabilities					
Non-Voted Notes Not Recorded as Debt	0.00	0.00	0.00	0.00	0.00
Total Long-Term Liabilities	7,188,782.50	1,332,976.16	0.00	8,521,758.66	1,842,060.57

The accompanying notes are an integral part of this financial statement.

Kennewick School District No. 017
 Schedule of Long-Term Liabilities: DEBT SERVICE FUND
 For the Year Ended August 31, 2014

Description	Beginning Outstanding Debt September 1, 2013	Amount Issued / Increased	Amount Redeemed / Decreased	Ending Outstanding Debt August 31, 2014	Amount Due Within One Year
Voted Debt					
Voted Bonds	66,050,000.00	0.00	6,970,000.00	59,080,000.00	7,520,000.00
LOCAL Program Proceeds Issued in Lieu of Bonds	0.00	0.00	0.00	0.00	0.00
Non-Voted Debt					
Non-Voted Bonds	0.00	0.00	0.00	0.00	0.00
LOCAL Program Proceeds	0.00	0.00	0.00	0.00	0.00
Total Long-Term Liabilities	66,050,000.00	0.00	6,970,000.00	59,080,000.00	7,520,000.00

The accompanying notes are an integral part of this financial statement.

Kennewick School District #1
 Benton County
 EIN: 91-600-1557

Schedule of Expenditure of Federal Awards
 For Fiscal Year Ending August 31, 2014

Federal Catalog Number	Federal Agency Name	Federal Program Title	Pass Thru Agency	Grant Number	Pass Thru Amount	Direct Fund Amount	Total Funds Expended	Foot Note
10.553		School Breakfast Program (A)	WA SPI		989,194		989,194	
10.555	Dept of Agriculture	Non-Cash Assistance (Commodities)	WA SPI		286,849		286,849	3
10.555		Nat'l School Lunch Program (A)	WA SPI		3,659,860		3,659,860	
10.559		Summer Food Service Program	WA SPI		144,971		144,971	
Dept of Agriculture Subtotal					5,080,874	0	5,080,874	
84.010A		T1A Basic	WA SPI	201312	3,429,069		3,429,069	2
84.010A		T 1D NEG/DEL Local Agency	WA SPI	222458	78,568		78,568	
84.010A		T 1 Priority, Edison EL	WA SPI	228312	14,808		14,808	
84.010A		T 1 Priority, Amistad EL	WA SPI	228315	24,178		24,178	
84.010A		T 1 ESEA Focus-Park MS	WA SPI	228587	10,395		10,395	
84.011A		Migrant Ed	WA SPI	282036	596,146		596,146	
84.027A		Sp Ed Idea -B Flow Thru 13-14	WA SPI	304751	2,823,130		2,823,130	
84.027A		Sp Ed Safety Net 13-14	WA SPI	337636	28,468		28,468	
84.041		Impact Aid, Maintenance and Operations	N/A			340	340	
84.048		CTE Perkins-Basic	WA SPI	173003	108,560		108,560	
84.048		CTE Perkins-SKCTR	WA SPI	172823	70,449		70,449	
84.173A		Sp Ed Preschool Flow 13-14	WA SPI	364752	69,536		69,536	
84.173A		Sp Ed Preschool Snet 13-14	WA SPI	385355	2,259		2,259	
84.334A		Gaining Early Awareness and Readiness for Undergraduate Programs PKMS	WSU		3,696		3,696	
84.334A		Gaining Early Awareness and Readiness for Undergraduate Programs HMS	WSU		133		133	
84.334A		Gaining Early Awareness and Readiness for Undergraduate Programs KEHS	WSU		2,820		2,820	
84.365A		Title III LEP FLOW 13-14	WA SPI	401811	328,449		328,449	
84.367A		Title II TPQ 13-14	WA SPI	523235	619,119		619,119	
Dept of Education Subtotal					8,209,783	340	8,210,123	
93.500		Pregnancy Assistance Fund Program	WA SPI	179107	10,000		10,000	
93.576	SOWA/DSHS/ORIA	Refugee School Impact Grant	YWCA		43,000		43,000	
Health/Human Services Dept Subtotal					53,000	0	53,000	
Totals					13,343,657	340	13,343,997	

Notes to Schedule of Expenditure of Federal Awards

Note 1 Basis of Accounting

The schedule of Expenditures of Federal Awards is prepared on the modified accrual basis of accounting. Expenditures represent only the federally funded portions of the program. District records should be consulted to determine amounts expended or matched from non-federal sources.

Note 2 Schoolwide Programs

The District operates a "schoolwide program" in five elementary buildings and one middle school. Using federal funding, schoolwide programs are designed to upgrade an entire educational program within a school for all students, rather than limit services to certain targeted students. The following federal program amounts were expended by the District in its schoolwide programs:
Title I (84.010A) - \$2,278,346, Title II (840367A) - \$363,448, Migrant Ed (84.011A) - 83,023.

Note 3 Non Cash Awards - Food Commodities

The amount of food commodities reported on the schedule is the market value of the commodities used by the District during the current year. The value is determined by the USDA.

ABOUT THE STATE AUDITOR'S OFFICE

The State Auditor's Office is established in the state's Constitution and is part of the executive branch of state government. The State Auditor is elected by the citizens of Washington and serves four-year terms.

We work with our audit clients and citizens to achieve our vision of government that works for citizens, by helping governments work better, cost less, deliver higher value, and earn greater public trust.

In fulfilling our mission to hold state and local governments accountable for the use of public resources, we also hold ourselves accountable by continually improving our audit quality and operational efficiency and developing highly engaged and committed employees.

As an elected agency, the State Auditor's Office has the independence necessary to objectively perform audits and investigations. Our audits are designed to comply with professional standards as well as to satisfy the requirements of federal, state, and local laws.

Our audits look at financial information and compliance with state, federal and local laws on the part of all local governments, including schools, and all state agencies, including institutions of higher education. In addition, we conduct performance audits of state agencies and local governments as well as [fraud](#), state [whistleblower](#) and [citizen hotline](#) investigations.

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We take our role as partners in accountability seriously, and provide training and technical assistance to governments, and have an extensive quality assurance program.

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